

## Core Business Not Yet Out of the Woods

### AIICO Records Underwriting Loss Despite Growth in Topline

AIICO Insurance Plc. grew Gross Premium Written (GPW) by 23.62%YoY to NGN61.98bn in 2020FY. Although both Life and Non-life businesses contributed to growth, GPW from the Life business had a weightier impact as it grew by 37.49% YoY to NGN41.64bn. Similarly, **AIICO** began its 2021 financial year on a strong footing as **GPW** improved by 12.19% to NGN19.69bn in Q1:2021, also driven by both life and general segments of the business. However, the strong performance in Gross Premium Income did not translate to an improved underwriting profit position in either period. The company recorded an underwriting loss of NGN36.27bn in 2020FY (vs. a loss of NGN7.73bn in 2019FY) and a further underwriting loss of NGN27.69bn in Q1:2021 (vs. loss of NGN131.03mn in Q1:2020). The deterioration in underwriting performance was as a result of significantly higher (+137.36%) actuarial provisions for life and annuity funds which increased by 137.36% in 2020FY to NGN51.58bn, and 40.92% to NGN72.69bn as at Q1:2020 (TTM). The significant increase in actuarial provisions for Life and Annuity reflected the increase in health risks due to the COVID-19 pandemic. Net claims ratio on the other hand increased modestly to 59.98% in 2020FY (vs 57.98% in 2019FY) and 77.38% in Q1:2021 (vs 58.00% in Q1:2020). **Going forward, we expect underwriting loss to improve by 26.52% due to improvement in underwriting income and moderation in provisioning for the life and annuity funds. However, we expect claim expenses to remain elevated for the rest of the year.**

### Underwriting Loss Dims Earnings

**AIICO's** bottom line declined in both 2020FY and Q1:2021 due mainly to underwriting losses but also as a result of divergent factors. While after-tax profit (PAT) in 2020FY was supported by a 102.33% YoY rise in investment income, Q1:2021 **PAT** was dragged by a 610.33% YoY decline in total investment income. Also, while the decline in yields on federal government bonds (which constitutes the most part of the company's investment portfolio) translated to an increase in fair value gains for the company in 2020FY, the uptick in yield had the opposite impact in Q1:2021. Furthermore, realized income from the purchase of an annuity portfolio and exchange gains from the wealth management business propped bottom line in 2020FY and Q1:2021. Meanwhile, **OPEX** rose 5.86% YoY to NGN11.47bn in 2020FY but declined in Q1:2021 by 0.37% to NGN2.30bn. Thus, bottom-line declined by 11.18% YoY to NGN5.25bn in 2020FY and by 18.79% YoY to NGN1.51bn in Q1:2021. **For 2021FY, we project PAT growth of 3.84% YoY premised on the improvement in underwriting loss position (as noted earlier) and supported by strong investment income performance.**

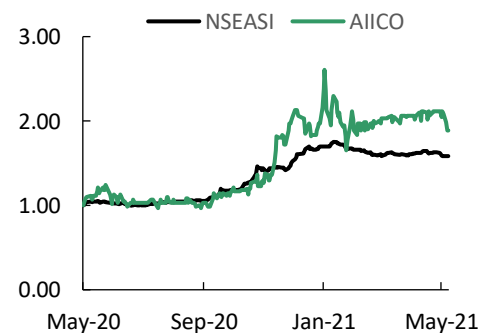
### Uptrend in Treasury Yields Cause Significant Fall in Total Assets

As at Q1:2021, **AIICO's** total asset fell by 11.05% YtD to NGN216.23bn due mainly to a decline in earning asset by 12.26% YtD (vs.61.20% in 2020FY). The decline in earning assets was mostly off the back of fair value revaluation of financial assets which value declined with the uptrend in yields so far in 2020. Meanwhile, the firm's earnings quality witnessed heightened volatility during the review period with operating cash ratio rising from 1.83x in 2019FY to 7.04x in 2020FY and 1.62x in Q1:2021. Overall liquidity however remains robust. Solvency margin stood at NGN53.31bn (1.96x the regulatory requirement) while contingency reserves of NGN7.67bn is well above regulatory benchmark.

### Recommendation

Given our expectation for full year earnings, we project an EPS of **NGN0.26**, and a target PE of **5.14x**. This yields a target price of **NGN1.34**, which represents an upside potential of +16.21% from its current market price of NGN1.15 as of May 25, 2021. Hence, we recommend a **BUY**.

Company	AIICO
<b>Valuation</b>	
Trailing EPS	0.24
BVPS	1.68
P/E	4.83x
P/BV	0.69x
Target PE	5.14x
Dec-2021 Exp. EPS	0.26
Dec 2021 Target price	<b>NGN1.34</b>
Current Price	1.15
Up/Downside Potential	+16.21%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	4.23%
ROA	0.70%
Combined Ratio	92.86%
Loss Ratio	77.38%
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN1.59
Yr Lo	NGN1.01
YTD return	+1.77%
Beta	0.78
Adjusted Beta	0.85
52-wk average volume	2,051,976
Shares outstanding	20.67bn
Market cap [NGN]	26.46bn
Financial year end	December
Most Recent Period (MRP)	Q1:2021



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2021 Target Price to Key model inputs						Min	0.81
EPS						Max	1.89
		0.16	0.21	0.256	0.31	0.36	
<b>Target PE</b>	5.04x	0.81	1.06	1.31	1.56	1.81	
	5.09x	0.81	1.07	1.32	1.58	1.83	
	5.14x	0.82	1.08	1.34	1.59	1.85	
	5.19x	0.83	1.09	1.35	1.61	1.87	
	5.24x	0.84	1.10	1.36	1.62	1.89	

**Financial Highlights (NGN'bn) AIICO INSURANCE PLC 2020FY**

Profit & Loss Account	Q1:2020	Q1:2021	y/y Growth
Gross Premium Written	17.55	19.69	12.19%
Gross premium income	15.19	17.35	14.19%
Reinsurance Expenses	-1.89	-3.16	67.75%
Net premium Income	13.31	14.19	6.60%
Fees and Commission Income	0.73	0.87	19.92%
Claims expenses (Net)	7.72	-10.98	-242.20%
Underwriting Expenses	1.74	-2.20	-226.02%
Underwriting Profit/(Loss)	-0.13	27.70	-21239.04%
Investment income	4.72	-24.08	-610.33%
Other Operating Income	0.17	0.27	58.76%
OPEX	-2.31	-2.30	-0.37%
PBT	1.42	1.58	11.27%
PAT	1.85	1.51	-18.79%
Balance Sheet	2020FY	Q1:2021	y/y Growth
Cash and Bank Balances	31.91	19.71	-38.24%
Financial Assets	188.34	170.81	-9.31%
Trade, Other Receivables & Prepayments	3.36	4.30	27.89%
Reinsurance Assets	7.50	8.79	17.32%
Investment Properties	0.76	0.76	0.00%
Fixed Assets	7.01	6.98	-0.41%
Other Assets	4.22	4.87	15.65%
<b>Total Assets</b>	<b>243.10</b>	<b>216.23</b>	-11.05%
Insurance Contract Liabilities	136.08	114.45	-15.89%
Investment Contract Liabilities	21.84	21.25	-2.66%
Trade Payables	2.02	2.22	10.02%
Other Payables and Provisions	4.77	2.87	-39.81%
Borrowings	0.00	0.00	
Other Liabilities	43.73	39.80	-8.98%
Total Liabilities	208.44	180.61	-13.35%
Shareholders' fund	33.70	34.73	3.06%

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**Movements in Price Target**

**Company Name:** AIICO Insurance Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
26-May-2021	1.15	1.00	1.34	BUY	BUY

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AIICO Insurance Plc	

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